



VALID Nutrition, Annual Review of 2014

Introduction and Background

The purpose of this document is to provide our supporters and the general public with a candid review of VALID Nutrition's activities and developments during 2014, including a brief overview of our plans for the year ahead.

VALID Nutrition is a "not for profit" company limited by guarantee, incorporated in Ireland. As such, it has no shareholders and cannot disperse profits outside of the business. It is a registered Irish, UK & US charity, but has a distinctive hybrid model with a special dispensation from the Irish Revenue Authorities allowing it to trade.

Seven Trustees (members) four of whom form the Board of Directors, govern the company. The Board is chaired by company founder Dr. Steve Collins and includes Howard Dalzell, former Director of Policy at Concern Worldwide, Ireland's largest development charity, and Roger Yates, the Humanitarian Director of PLAN International, one of the world's largest developmental charities. The Company Secretary is Derek Staveley, formerly Finance Director of Unilever Ireland. VALID Nutrition's small management team report to the Board through the Chief Executive. Our structure is designed to harness modern technology and progressive work practices, thereby reducing costs and enabling smarter, more efficient work methods.

- **Auditors: KPMG, 1 Stokes Place, St. Stephen's Green, Dublin 2.**
- **Banking Services: Allied Irish Bank (Irl), Barclays (UK) and Northern Trust (USA).**
- **Head Office: Bantry, Co. Cork, Ireland – "virtual office".**
- **No. of Employees: 25 worldwide.**
- **Turnover: €1,858,434 (for year ending 31st March 2014, our financial year).**

Despite all the amazing advances made in the last 30 years, lack of access to appropriate affordable nutrition still affects one third of all children in developing countries. This means that they are denied the opportunity to ever reach their full potential – both mentally and physically.

The solution is possible and the prize is absolutely enormous, not just for the children concerned, but also their societies and the global economy. By regarding malnourished children as customers and by empowering mothers, together with an innovative evidence-based approach, VALID aims to unleash a disruptive change in how this problem is addressed – and in so doing, be a catalyst for an enterprise driven sustainable solution.

Our vision is that the key to addressing malnutrition lies in creating demand for good nutrition in communities, thereby empowering individuals as customers while also building local economic activity.

Childhood malnutrition is **the** most important cause of global poverty, underdevelopment and child mortality in the world today (ref: The World Bank/WHO). The scale of this global problem is huge:

- ◆ **More than 40 million children suffer from Acute Malnutrition (starvation) that is associated with between 1-2 million avoidable child deaths every single year.**
- ◆ **Close to 40% of all children in developing countries suffer from Chronic Malnutrition that if not addressed by the age of 2, irreversibly damages their brains and bodies.**
- ◆ **Almost none of those affected get the nutritional support they need and as a result over 1.5 billion people today live shorter, poorer, sicker lives as a result of malnutrition.**

The global consensus is that preventing malnutrition has the highest return on investment of all development interventions. At the individual level, preventing malnutrition leads to massive increases in adult earning and educational potential and at the macro level, it increases GDP in affected countries by an average of 2-3% and by up to 10% in high burden countries. As recently as November 2014, The Copenhagen Consensus confirmed that childhood malnutrition is **the** most critical and economically sound intervention.

Our Mission is to drive radical change in how malnutrition is addressed by making highly nutritious "ready-to-use food" products more accessible and affordable to those who need them most, while also increasing awareness of their benefits and therefore generating demand. This will be achieved by manufacturing locally in developing countries, evidence-based R&D and innovative marketing—developing new routes to consumers and through changing nutritional attitudes and behaviours at community level.

Evolving from our vision as stated above, VALID Nutrition's mission is distinctively based on empowering malnourished people by treating them as customers with choices, not victims or mere beneficiaries. This is what differentiates us from other practitioners.

VALID Nutrition—Country Operations

Malawi

VALID Nutrition Malawi, in collaboration with our business partner **Exagris Africa (EAA)**, produced 3 million sachets of Ready-to-Use Therapeutic Food (RUTF) in 2014, sufficient to treat around 25,000 children with Severe Acute Malnutrition (SAM). Maintaining a consistent supply of high quality peanut paste, a core raw material for RUTF, in the face of a poor groundnut harvest has been a key challenge to production this year. In response to this, several process changes have been implemented with our suppliers and we remain optimistic on the longer term outlook.

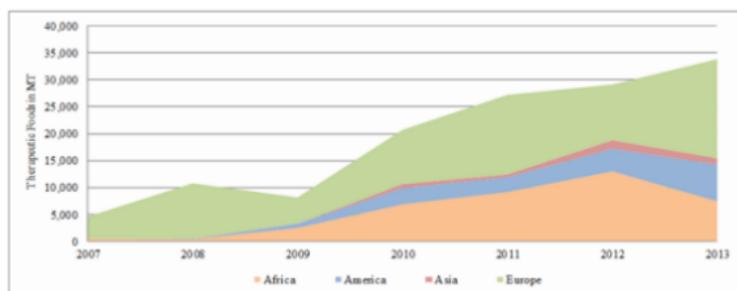
Demand for RUTF remains high, and if we can produce, the volume opportunities are there. Cumulatively since establishment, the Malawi factory has produced over 20 million sachets of RUTF. This amount has been sufficient to treat approximately 175,000 children with SAM.

By producing locally in Malawi and with the support of customers such as **UNICEF** and **Clinton Foundation (CHAI)**, we are preventing the need for RUTF to be imported from Europe or the USA. Furthermore, we are assisting local farmers and suppliers as well as providing employment and skills transfer. All this has a hugely beneficial multiplier effect on the local economy.

Our effort here is vital because the percentage of RUTF globally that is purchased from “offshore” as opposed to within developing countries and regions is only around 25%.

In addition, with a grant from **USAID's South African Trade Hub (SATH)**, we hope to start pilot production on a Ready-to-Use Complementary Food (RUCF) in Malawi very soon. RUCFs are designed to prevent chronic malnutrition which affects 43% of all children in Malawi and on average over 40% of all children in Sub Saharan Africa. We intend to undertake a major research project including a Test Market, using RUCF in Malawi. This will focus on addressing the process used to reach children affected by Chronic Malnutrition. This is the first step in a progressive programme we have lined up for 2015 as we endeavour to start the process of unlocking this potentially massive market.

UNICEF RUTF Procurement by Production Origin



Source: UNICEF Supply Division.

India

Our programmes in India saw the start of a ground-breaking operational pilot examining the effectiveness of three different approaches to the Community-based Treatment of Severe Acute Malnutrition (CMAM) through a government child development programme in Odisha (Orissa). This pilot is the first time an Indian government programme has used RUTF and as such, represents a significant step forward in addressing malnutrition with huge potential ramifications. India accounts for 40% of all cases of SAM globally.

The VALID Nutrition facilitated pilot, funded by DFID India, is taking place across one district with a population of under 1 million. The highly developed child development service in the district has meant that the VALID team has had to support and train over 2,000 community-level workers to diagnose SAM, provide basic medical screening and prescribe the correct dose of RUTF to any children found to be suffering from SAM.

From the start, VALID Nutrition has worked in conjunction with government, helping to develop protocols and guidelines, training and facilitating implementation and ensuring that this is a government owned and run project context.

Providing the project is successful, and the data demonstrates that RUTF is as effective in India as it is in the other 65 countries where it is used (initial signs look very positive), the potential for this project to scale up is absolutely huge. India has a vast network of community-based child development services with hundreds of thousands of similar centres spread across the whole country. These centres reach up to 8 million children with SAM, who could for the first time be offered effective treatment within a few years.



Kenya, Ethiopia and Nigeria

As reported last year, these three countries are of particular interest. We have previously had a collaboration in Kenya (in 2010 and 2011), a presence in Ethiopia with a local partner until 2013 and we have been exploring options in Nigeria. Discussions are on-going in respect of each country but all details are confidential at the moment. We hope to be able to provide further information shortly.

Research and Development

Soy Maize Sorghum RUTF

The new generation Soy Maize Sorghum (SMS) RUTF clinical trial in the DRC (**funded by Irish Aid and the PRANA Foundation**) was completed during May 2014. Initial analysis indicates in the younger group (under two years), that while the mortality rates were similar for the two recipes, the recovery rate was slower with the SMS RUTF, such that we conclude the formulation inferior to the standard milk-peanut based RUTF, for this group. Although the mechanisms are unclear, we attribute this outcome primarily to the absence of milk in the SMS formulation. For this group, we believe that further innovation in formula is needed.

However, the results for all children over 24 months of age, suffering with SAM, approximately half of all cases of SAM, which is equivalent to more than 10 million people worldwide, are that the new SMS recipe has an efficacy equivalent to the established milk-peanut based RUTF formula. Recovery rates and speed of recovery are almost identical, and the mortality rate is consistently as low in the SMS RUTF as in the milk-peanut recipe. This is the first time a non-milk recipe has clearly been shown to achieve a clinical efficacy equivalent to milk-based RUTF formulas.

Making therapeutic foods out of local grains and pulses has long been a goal of international research and development efforts into Ready to Use Foods. Non-milk formulations reduce cost, reduce dependency on imported milk, make better use of locally grown ingredients and decrease the risks of fungal (aflatoxin) contamination. This successful study, thus, represents a very important breakthrough.

The cost of the new SMS RUTF will be considerably lower than the current milk peanut recipe. We estimate that the cost reduction will result in a global saving of several million dollars, and thereby enable treatment of hundreds of thousands of additional cases for the same budget. As the cost of RUTF is a major factor limiting the expansion of CMAM across the globe, we believe that this research marks the start of an exciting and very significant change in the way that these products are made. We plan to publish the full results very soon.

Smallholder Farmer Project

In October, 2014, Howard Dalzell and Steve Collins, at a specially arranged event in Lilongwe, presented the results of a pioneering study **funded primarily by Irish Aid**, on the impact of our raw material sourcing on the livelihoods of smallholder farmers in Malawi. This was a four year livelihood analysis which looked at smallholder farmer's experiences with groundnut production. Our objective was that, through partners and value chain stakeholders, we could support farmers to produce commercial grade groundnuts for use in RUTF, thus creating a reliable source of high quality groundnuts.

Results will be used for advocacy, targeting the respective government bodies, multi and bi-lateral agencies, civil society actors, donors and the private sector. The main message is for continued and increased promotion of local production of crops such as legumes that are both environmentally and nutritionally beneficial. This should come hand in hand with strong national and international commitment to addressing food safety risks at export and import level and also at household consumption level.

With appropriate policy changes Malawi and countries like it, which experienced high rates of malnutrition, can competitively produce effective nutritional products. This has the potential to save buyers considerable time and money in the procurement of goods like RUTF, thus increasing the number of lives saved and greatly increasing the proportion of the aid and development budget that remains in the developing world. There will be significant benefits to the local economy through the purchase of raw materials from smallholder farmers and through employment creation along the value chain.



Research Funding

We are seeking funding for a number of new initiatives and have completed several applications for funding for our Ready-to-use Supplementary Food (RUSF) recipes. Funding in this area will allow us to undertake clinical trials in order to start commercialising.

Marketing

We undertook a major overhaul and “re-launch” of our website during the year improving both layout and content, thereby enhancing the user experience. In addition to the website, regular updates and relevant items are shared regularly on our social media platforms of Twitter, LinkedIn and Facebook.

UNICEF State of the World’s Children 2015

Dr. Steve Collins was invited to contribute to UNICEF’s annual flagship publication: “The State of the World’s Children”. The theme of this year’s publication was “Innovation” and we are very encouraged by the recognition of VALID’s contribution to driving change and creating sustainable improvement in how malnutrition is addressed globally.



SUN Business Network

VALID Nutrition is very pleased to now be a member of the Scaling up Nutrition (SUN) Business Network which is working in association with GAIN to intensify business efforts in support of better access to affordable nutrition.

Funding and Finance

The table below presents a summary for the year ending 31st March 2014, our most recent Financial Year.

Summary Actual Figures	Year Ended 31 March 2014
Total Incoming Resources	€1,858,434
Total resources expended	€(1,678,733)
Surplus / (Deficit) on ordinary activities	€179,701

Incoming resources, which consists of income from manufacturing operations, grants & voluntary income and revenue from consultancy services, grew by 40% this year. Following significant expenditure reduction in the prior year, we further reduced our overall expenditure outlays with our fixed costs centrally reducing by almost 20%.

The combination of these effects on the income and expenditure lines resulted in a surplus on operating activities. This in turn has allowed us to reduce creditors and improve our balance sheet position somewhat.

VALID Nutrition aims to be a self-sustaining social enterprise funded through the sales and marketing of effective low cost nutritional products. Key to the model is the complete alignment of revenue generation with social impact. In contrast to traditional aid and development organizations VALID Nutrition has not invested in fundraising, preferring to base our competitive advantage on the quality and effectiveness of our products and services rather than on the extent that our corporate image appeals to donors.

As mentioned above, we have several exciting projects underway and in the pipeline. However it will be some time before the benefits of these programmes filter through to providing revenue to VALID Nutrition and over the next few months in particular, finding the funding we require to enable us to continue to pioneer real change in the way that malnutrition is addressed, will remain challenging.

Looking Ahead

We remain convinced that market driven solutions are imperative to provide a sustainable solution. Empowering mothers and communities as customers and enabling them to take responsibility for their own malnourished children is key to this.

Having pioneered the concept of manufacture of ready-to-use foods exclusively in developing countries and regions, to maximize the developmental and economic impact, we are frustrated that around 75% of RUTF is still being procured from Europe and the USA. A massive developmental opportunity is being foregone and we will continue to push hard to address this.

At the same time, VALID Nutrition is also increasingly working to tackle chronic malnutrition, by demonstrating to the aid and food industries alike, that there is a viable market providing people with the missing nutrients their children need and, in doing so, we can reduce and eventually eliminate this scourge. By harnessing the private sector, this new approach can bring vast new resources to bear on this age old problem, and these resources are essential additions if we are to reach and prevent malnutrition in over 200 million children each year.